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Meeting details:

Date: 30 Oct 2023

Time: 10.00 a.m.

Venue: 18 Tagore Lane Singapore 787477

Q1. For the financial year ended 30 June 2023, the group reported a 45% drop in revenue to US\$43.8 million (2022: US\$79.3 million). Gross profit amounted to US\$12.0 million while loss for the year was US\$(2.9) million.

In 2023, revenue from North America declined sharply, dropping from US\$51.2 million in 2022 to US\$21.6 million. This decline was primarily due to a significant slowdown in customers' order replenishment cycles as stockpiles accumulate at the retailers' end.

FINANCIAL PERFORMANCE
 Summarised Profit & Loss Account For the Year Ended June 30,

Revenue from (US\$'000)	2023	2022	Change
Asia-Pacific	16,765	20,443	(3,678)
North America	21,576	51,177	(29,601)
Europe	4,178	6,650	(2,472)
Others	1,262	1,069	193
Total revenue	43,781	79,339	(35,558)

Annotations: (18)% decrease for Asia-Pacific, (58)% decrease for North America, (37)% decrease for Europe, and 18% increase for Others.

(Adapted from company annual report)

- (i) **Can management help shareholders better understand the North American market's peculiarities that led to the significant swings in demand?**
- (ii) **What strategies is management employing to address the sharp decline in demand in North America? For instance, has management considered acquiring new customers in different market segments or geographic areas, adjusting the product mix and market positioning, or revising pricing strategies?**

Also, in the statement to shareholders, the executive chairman and CEO provided the following outlook:

We observed that our business recovery depends very much on the pace of inventories replenishment cycles while such orders from our export clients are contingent on the pace of the global inflation pressure. ... we read that China has set a very modest target for economic growth in FY2023 and there have also been mounting concerns over its major real estate and debts crisis that could further deprive its economic stability... Commune (our retail and distribution business) has proactively diversified its market base ... has also extended its market reach via expansion of logistic networks and inventory positions in northwestern Europe and India.

Management's discussion of the key operational keys can also be found on pages 45 and 46 of the annual report.

- (iii) **Can management elaborate on the rationale to acquire an additional 30% interest in Commune (Chongqing) Trading Co. Ltd ("Commune CQ") for RMB 1 on 31 August 2022? Can management elaborate on the working relationship with other shareholders of Commune CQ and share insights into the financial position of its partners? How is management's positioning Commune CQ given that it is hopeful of a meaningful rebound after China's post-Covid reopening while being mindful of the growing concerns over the real estate sector in China? Can management confirm that Commune CQ was loss-making in 2023 and is in a net liabilities position as at 30 June 2023, and whether it requires additional capital injection by the company?**
- (iv) **What factors were considered by the board prior to the group's expansion to India? Can management outline the key success factors for this venture, and provide information about the size of the Indian market?**

Q2. As at 30 June 2023, the group's inventories decreased to US\$12.3 million from US\$19.9 million a year ago. Inventory turnover days ranged from 97-98 days in 2019 and 2020 but jumped to 129 days in 2021, 132 days in 2022 and 141 days in 2023.

- (i) **Can management confirm if supply chain disruptions caused by the pandemic have largely been resolved?**
- (ii) **What are the key factors that led to the consistently high inventory turnover days of 132-141 days in the past two years? How is management actively working to improve inventory turnover while also considering delivery lead times?**
- (iii) **Will the group's network expansion to northwestern Europe and India require significant inventory holdings?**

The breakdown of the group's inventories can be seen from Note 9 of the financial statements and reproduced below.

9 INVENTORIES

	GROUP	
	2023	2022
	US\$'000	US\$'000
Raw materials	4,871	8,372
Work in progress	3,771	5,839
Finished goods	5,780	6,902
	14,422	21,113
Less: Allowance for inventories	(2,104)	(1,176)
	12,318	19,937
Movement in allowance for inventories:		
Balance at beginning of the year	1,176	1,193
Charged (Credited) to profit or loss for the year	928	(17)
Balance at end of the year	2,104	1,176

(Source: company annual report)

In FY2023, an allowance of US\$928,000 in inventories was recognised, of which US\$885,000 has been attributed to the manufacturing segment and US\$43,000 to the retail and distribution segment. For reference, the allowance amount of US\$885,000 is approximately 40% of the amount written off due to the fire loss in 2022.

- (iv) **What are the reasons for the significant allowance for inventories? Did management recognise impairment on raw material, work in progress and/or finished goods? What was the breakdown of the impairments?**
- (v) **What guidance has the board provided to help the group improve inventory management in an operating environment characterised by volatile and uncertain demand?**

Q3. As disclosed in the corporate governance report, the internal audit function of the group is outsourced to Messrs Crowe Horwath First Trust Risk Advisory Pte. Ltd. It was stated that the internal audit plan will be submitted to the audit committee for approval prior to the commencement of the internal audit.

- (i) **Can the audit committee (AC) clarify its role in determining the scope of the internal audit?**
- (ii) **What were the scope, key findings and recommendations by the internal auditor for FY2023?**
- (iii) **Can the AC confirm that all the foreign operating subsidiaries in Malaysia, Vietnam and China were included in the internal audit? How was the internal audit carried out for these foreign subsidiaries?**
- (iv) **What is the level of oversight by the AC on the actions taken by management to follow up on the recommendations?**

Shareholders are welcome to use and/or adapt the questions prepared by SIAS and to forward them to the company.

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